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AGENCY SUPPORT COSTS

Report of the Administrator

Addendum

REPORT OF THE TEAM OF EXTERNAL INDEPENDENT EVALUATORS ON THE ARRANGEMENTS FOR AGENCY SUPPORT COSTS

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LETTER OF TRANSMITTAL

15 September 1994

Mr. James Gustave Speth
Administrator
United Nations Development Programme
One United Nations Plaza
New York, NY 10017

Dear Mr. Speth,

It is with pleasure that we herewith transmit our Report on the arrangements for agency support costs, which we were invited to prepare. While remaining faithful to the terms of reference given to us, we have been particularly concerned to review the specifics of the support cost arrangements in the wider context of UNDP and agency concerns and the tripartite relationship.

The main findings and our interpretation and judgement from the analysis are presented in the respective sections of the main body of the report. A summary of conclusions and recommendations is given in the final section.

The report is the product of extensive team work. We have greatly benefited from the generous support given and courtesies shown by your staff both at headquarters and in the field, by representatives of United Nations specialized agencies whom we interviewed and by government officials we met on our field visits. Their contributions were many and most important. They bear no responsibility, however, for any deficiency in analysis and presentation.

It is a unanimous report which all three of us support without reservation.

The United Nations organization is at a critical point in its evolution and the United Nations Development Programme has a decisive role to play in the move towards an effective and coherent system in support of sustainable human development. We are very conscious of the modest impact an effort of this nature can make to the cause of improving the human condition, but feel privileged to have been associated in this more mundane work that is also needed.

We hope the report will be of some value to UNDP and its member Governments in their assessment of how the support cost arrangements work and how they can be improved, and in their deliberations on the future of the system.

Yours sincerely,

(Signed) Muchkund Dubey	(Signed) Just Faaland	(Signed) Patricio Ruedas

Encl.

I. INTRODUCTION

1. By its decisions 90/26 and 91/32, the Governing Council approved a new system of agency support cost arrangements. This new system was introduced in 1992. Decision 91/32 provided that an external evaluation of the new arrangements should be carried out "for the purpose of determining allocations for technical support services for the sixth programming cycle", and decision 92/22 specified that the independent external evaluation of the new system would take place in 1994. The Administrator consulted with the specialized agencies of the United Nations system on the terms of reference for the evaluation and, in June 1994, appointed a team composed of Messrs. Muchkund Dubey, Just Faaland and Patricio Ruedas to conduct that evaluation. The terms of reference for the evaluation are attached in the annex.

2. After two individual planning meetings in early June, the full team met in Geneva in mid-June. In July, the team held discussions in New York with representatives of UNDP and in European headquarters of specialized agencies to which the new arrangements apply. 1/ The team also had a joint meeting with representatives of the 11 other technical United Nations agencies which, although still subject to the "old" support costs system, have been asked by the Executive Board to consider the possibility of participating in the new regime in the light of experience gained. 2/ During the month of August, the team members met, jointly or severally, with government, UNDP and agency officials in the capitals of Dominican Republic, Honduras, India, Indonesia, Malawi, Morocco and Mozambique. The team reconvened in New York in early September to consider its findings and recommendations and finalize the present report.

3. In the preparation of the report, use has been made of budgets, statistics and other information available at headquarters in New York and the seven countries visited. An updated summary of information on the volume and composition of UNDP technical cooperation activities, including the financial aspects of resource allocation, programme implementation and support costs, is available in the report of the Administrator (DP/1994/23), to which the present report is issued as an addendum.

4. It was clear from the outset of this evaluation that actual experience under the new arrangements, both qualitative and quantitative, was much more limited than had been expected when the Governing Council decided in 1992 to have the new arrangements evaluated in 1994. None the less, lessons can be drawn from the experience to date, provided this experience is viewed in the broader context of action by Member States to increase coordination, effectiveness and efficiency in the delivery of technical cooperation.

5. At this point, a word of caution must be recorded. Progress towards many, if not all, of the stated objectives depends, to a larger degree, on factors that have little to do with support cost mechanisms. Prominent among those factors is the extent to which United Nations organizations are capable of accepting change as an inevitable part of the process towards greater cohesion and effectiveness in the system of international cooperation, and are also capable of coordinating and meshing UNDP mandates with those of their own governing bodies. Neither the current support cost regime, nor indeed any

conceivable support cost arrangement, will by itself be capable of significantly changing the institutional behaviour of organizations in the system. Nor could it be intended to do so, as in any event the moneys involved are far too small to incite fundamental changes. However, support cost arrangements must act in a way that at least does not hinder, and if possible facilitates, progress towards the objectives set out in the relevant decisions of the governing bodies.

II. BACKGROUND

6. The present report is addressed to, and will be read by, persons whose familiarity with and knowledge of the details of specific issues involved are often deeper and more extensive than those of the authors. Nevertheless, to enable the report to stand on its own to the extent possible, a brief historical reference seems in order.

7. The term "support costs" arose and evolved as "partial payment" by UNDP for technical services and administrative overheads incurred by agencies in planning, executing, implementing and evaluating UNDP-funded programmes and projects. The expression "partial payment" reflects that specialized agencies were expected to cover a portion of their overhead costs from their own budgets. This is consistent with the shared, tripartite partnership between Governments, agencies and UNDP in furthering the objectives of international technical cooperation.

8. As is perhaps inevitable when financial matters are concerned, the support cost relationship between UNDP and the agencies has not been entirely free from controversy. It has always been accepted, pursuant to the principle of cost-sharing referred to above, that payments received by the agencies do not compensate the total overhead related to their participation in UNDP-funded activities. The actual cut-off point for reimbursement of overhead costs has been a subject of intense discussion; cost-measurement studies have tended to confirm that - on the average - support cost payments cover approximately one half of total overhead costs. Nevertheless, from a broad institutional and political perspective, this partial reimbursement has been and is seen as an appropriate financial expression of the shared partnership that all agencies have accepted. Throughout the years, the Governing Council has maintained a simple system that reimbursed agencies a fixed percentage of direct project costs to cover part of overhead on UNDP-funded projects actually implemented: first 14 per cent and later (since 1982) 13 per cent.

9. While the basic principle of shared tripartite responsibility has remained unchanged, the financial underpinning of the system provided through UNDP-funded activities has recently been weakened by a massive shortfall in the expected resource flow through UNDP.

10. In 1990 and 1991, when budget decisions were taken for the fifth cycle, including support cost arrangements to be applied, there was an anticipation of a steady increase in UNDP core resources; in fact, the assumption was that there would be an average 8 per cent annual growth in contributions throughout the cycle from an estimated resource base of $1 billion in 1991. However, the actual picture has been considerably different. Total voluntary contributions

did increase by 7 per cent in 1992 over 1991 but then fell by about 15 per cent in 1993 to $910 million, and are expected to stay at about that level in 1994. This has obviously resulted in a sharp decline in core resources for the fifth cycle and hence in project approvals and expenditures; thus, the forecast of core programme expenditures for the fifth cycle (i.e., country and intercountry indicative planning figures (IPFs) plus Special Programme Resources (SPR)) has been scaled down from an original estimate of $4,476 billion to $3,152 billion, a reduction of about 30 per cent. Actual core programme expenditures decreased from a high of $916 million in 1991 to $783 million in 1992 and $662 million in 1993 and may drop further to perhaps $625 million in 1994.

11. UNDP went through a similar experience in the third cycle when only 55 per cent of the originally established IPF levels could be implemented because of an unforeseen decline in core contributions. This is hardly a sound basis for the effective programming of technical cooperation.

12. This decrease in core resources, together with other factors such as the increase in national execution, considerably affected UNDP core-funded expenditures by all United Nations agencies, large and small. The share of the five major agencies fell from $437 million in 1991 to $226 million in 1993; the share of the 11 smaller agencies was also halved, from $108 million to $56 million.

13. Of the $1.4 billion now expected to be approved under the new arrangements for the remainder of the fifth cycle, less than 30 per cent (or about $400 million) is likely to be assigned for implementation by the five large agencies. Actual approvals for these agencies under the new arrangements for the two-year period 1 July 1992 to 30 June 1994 was about $235 million. Delivery up to 31 December 1993 for these five agencies under the new arrangements amounted to only some $50 million, attracting support cost payments of $5.3 million. Clearly this level of activity does not provide the basis for evaluation initially assumed by the Governing Council.

14. The level of UNDP resources - and within it the level of support cost payments - should be seen in the context of the declining overall flow of development assistance. Thus, within the total public and private financial flow from developed to developing countries, Official Development Assistance (ODA) from countries that are members of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD/DAC) amounted in 1993 to $54.8 billion, of which approximately one third ($17.7 billion) was channelled through multilateral agencies. Of this latter amount, only about one twentieth (about $900 million) was contributed in 1993 to the UNDP core programme. These figures clearly show that within the overall picture of development cooperation the financial significance of "support cost payments", while important, can only be limited.

15. Along with the shortfall in resource flow, other changes have also affected the conditions within which the tripartite relationship operated. In particular, the progressive development of national institutional capacity, in many cases supported and strengthened by assistance through the United Nations and from the wider international community, has increased the ability of Governments and national agencies to execute and implement UNDP-funded projects

themselves, rather than relying on United Nations agencies. Such developments have required a reassessment of the support cost system, with a view to ensuring that the system facilitate the shift to national execution and implementation where reliance on the specialized agencies is no longer needed to the same extent. At the same time, changes were introduced, inter alia, to allow more room for agencies to participate in upstream technical cooperation activities.

16. Both in response to and in support of these developments and also to encourage further effectiveness and efficiency, the Governing Council, by its decisions 90/26 and 91/32, established a new system of support cost reimbursement, which has been applied for projects approved after 30 June 1992, and so far only for the five major specialized agencies. The successor arrangements separated technical support services from administrative and operational support services, and set different rates of reimbursement for each. More specifically: (a) agency technical support services at the programme level (i.e., for upstream policy and programme advisory services) is reimbursed at the rate of $14,000 per work-month of service; this reimbursement is known as "TSS-1"; (b) agency technical support services at the project level (to assist in project formulation, appraisal, implementation, monitoring and evaluation) is reimbursed at the rate of $9,500 per work-month; this reimbursement is known as "TSS-2"; (c) administrative and operational support costs incurred in the implementation of UNDP-financed projects, known as AOS, are reimbursed in accordance with a diversified schedule of rates for each of the following seven components: international personnel (9 per cent); national personnel (11 per cent); subcontracts (11 per cent); fellowships (12 per cent); other training services (21 per cent); local procurement (6 per cent); and international procurement (10 per cent, or 4 per cent in the case of large orders). 3/

17. The new support costs for the five major agencies are financed from different lines within the UNDP budget: separate lines have been established for each of TSS-1 and TSS-2. AOS is paid from the "Indicative planning figure sub-line", established at 10 per cent of the IPF for each country. At present, the estimates for the five agencies for the fifth cycle (1992-1996) stand at $64 million for TSS-1, $42 million for TSS-2 and $39.5 million for AOS. In addition, there is a separately budgeted amount of $14 million for technical support for national execution.

18. In addition, one of the five large agencies, UNIDO, receives from UNDP an allocation for a Special Industrial Services (SIS) programme of $15 million for the fifth cycle. Moreover, UNIDO benefits from UNDP part financing of its network of field representation in an amount of $19 million for the five-year period 1992-1996. According to information made available to the team, this latter allocation (and those for earlier years) were made available to UNIDO on the understanding that financing of the country directors (initially called the Special Industrial Development Field Advisers) would be assumed by UNIDO's own budget when it became a specialized agency. This has in fact not been done. The team finds the continued UNDP financing of these posts to be an anomaly.

19. The 11 smaller agencies continue to be reimbursed for their overhead costs at 13 per cent of their delivery as implementing agents (10 per cent financed from the respective country or intercountry IPF sub-line, the remaining

3 per cent from a centrally held budget line). In addition, small agencies delivering less than $24 million in any given year receive supplementary "flexibility payments" to compensate for diseconomies of scale. These payments, financed from a centrally controlled budget line, are computed on a sliding scale based on the degree of shortfall under $24 million, ranging from an additional 1 to 9 per cent over and above the basic 13 per cent. Furthermore, a centrally held budget allocation of $11 million has been earmarked to assist the small agencies to provide sectoral support through participation in upstream policy and programme formulation. Finally, a proposal by the Administrator is before the Executive Board to allocate a further $5 million in support of the smaller agencies to allow them more scope for delivery of their specialized technical services to country and intercountry programmes.

20. The United Nations specialized agencies are expected to implement well over two fifths of the UNDP core-financed project activities in the current cycle (and only little more than 35 per cent of the project portfolio under the new arrangements). Implementation by national institutions is expected to account for one quarter (and no less than 30 per cent under the new arrangements) while the Office for Project Services (OPS) will alone implement nearly 18 per cent of the total for the cycle (and 20 per cent or more for projects under the new arrangements). A group of "other" actors, mainly international financial institutions and United Nations regional commissions will implement the remaining 15 per cent or so.

III. NATIONAL EXECUTION

21. One of the specific objectives sought by the Governing Council in its decisions 90/26 and 91/32 was that the new arrangements "facilitate the further assumption by Governments of the management of United Nations-financed programmes and remove impediments to and provide incentive for national execution ...". This statement should be seen in the context of the rapid development of national execution over the past few years; indeed, it could be argued that the point of departure of the new arrangements is precisely the global trend towards national execution as the preferred form of execution. Thus, progress towards more generalized national execution does not depend on the successor arrangements; rather, successor arrangements are designed, inter alia, to assist Governments in better assuming the management of UNDP programmes.

22. The promotion of national execution has become a clear-cut legislative priority of UNDP. In the words of General Assembly resolution 47/199, "national execution should be the norm for programmes and projects supported by the United Nations system."

23. National execution is generally regarded as an effective vehicle for ensuring efficiency and sustainability and making progress towards self-reliance. That is why many institutions within the United Nations system itself have been resorting to national execution for several years. UNDP has been rather a late starter.

24. By all accounts, there has been recent rapid progress after this late start. Globally, up to 30 per cent of IPF projects are now nationally executed and the rate of growth in national execution during the last two years has been dramatic (by 36 per cent from 1992 to 1994). In India, the percentage of nationally executed projects as a proportion of total approvals rose to 97 per cent in 1992. There was some decline subsequently but the figure was still 85 per cent for 1994. In Mozambique, national execution accounted for 49 per cent of total commitment for the current cycle. In Indonesia, national execution has been taken to 40 per cent of total approvals in 1993.

25. The objective of greater reliance on national execution has a parallel in the objective of increased national implementation. As regards execution, our inquiries tend to indicate that it is generally accepted in principle and that in practice national execution has become a primary mode of operation. Agency execution of UNDP-financed projects would, therefore, be the second choice, to be undertaken to the extent that national execution was not practicable.

26. How arrangements are made for implementation is a matter for the executing agency to determine in consultation with UNDP. Again, it is our impression that the option of national implementation is generally favoured, as it should be, but here the choice is often more difficult than for execution.

27. The progress towards Governments taking up projects for national execution has been considerably facilitated by the introduction by UNDP of a clear and useful distinction between project and programme execution and implementation. According to this definition, execution entails the overall management of the programme or the project, along with the responsibility and accountability for the production of outputs, achievement of programme/project objectives and for the use of UNDP resources. Implementation, on the other hand, entails the procurement and delivery of programme/project inputs and their conversion into outputs.

28. All the specialized agencies concede both the desirability and inevitability of national execution. However, several of them expressed the view that the pace in national execution was not always determined by the Government but was being forced by UNDP (of course under a clear legislative mandate). The team noticed in several of the countries visited that a special programme support unit to assist national implementation had been established, in most cases with the help of OPS, as a separate project in the UNDP office, and not in the government coordinating agency. The existing programme support units must be regarded as purely temporary and should be located as soon as practicable in the government coordinating agency.

29. Moreover, the political will that Governments of recipient countries have exercised in adopting resolutions at the international level for moving rapidly towards greater national execution must be matched by the exercise of similar political will at the national level. This can be done effectively by taking over UNDP projects for execution, and whenever possible, implementation, rather than leaning on the programme support units financed by UNDP. It is very difficult to believe that Governments which manage and implement all the country's development programmes and projects, without any outside assistance, cannot do so for that small proportion of them which are UNDP-financed. What is

important is to make the execution and implementation of UNDP projects an integral part of the process and procedure for the execution of all other national programmes and projects. The present definitional device for taking on more and more projects for execution will mean progress in terms of figures but not necessarily in terms of taking over the real control over the project.

30. National implementation, like national execution, should not be confused with implementation or execution by government. It includes all national entities - public or private - that have the capability to implement or execute. For example, in India, three projects have been subcontracted by the executing government agencies to be implemented by an academic research institution, a non-governmental organization (NGO) research foundation and a consumer education research centre. However, the team's inquiries with some of the Governments revealed that they were not at this stage contemplating handing over execution to national entities other than government departments or agencies.

31. It is important to keep in mind that the choice of national execution - or for that matter national implementation - in no way rules out an active role also for the United Nations specialized agencies. The choice made determines where final responsibility for decisions and actions are; but there is considerable scope for such decisions and actions themselves being informed by analysis, advice and guidance from others, including UNDP and the relevant United Nations specialized agency.

IV. THE TRIPARTITE RELATIONSHIP

32. Among the objectives of Governing Council decisions 90/26 and 91/32 is the requirement that the successor arrangements "continue to reflect the principles of tripartite partnership as a distinctive characteristic of UNDP assistance, irrespective of execution modality". Thus, successor arrangements were expected to help to maintain the relationship between Governments, UNDP and the specialized agencies. Any assessment of the nature and effectiveness of the tripartite relationship and its evolution must be based on the fundamental principles of government ownership and control, UNDP accountability, and agency neutrality, institutional memory and expertise.

33. There is some doubt as to whether successor arrangements have indeed been successful in this regard. Many representatives of agencies feel that the new arrangements have hurt, rather than helped to maintain, the tripartite relationship. In support of that view, they point to the precipitous drop, over the past two years, in their participation in UNDP-funded delivery; to the limited use of TSS-2; and in general to the feeling that they have become secondary actors, instead of equal partners, as was previously the case. These are serious concerns and warrant examination.

34. There has indeed been a marked decline in the share of UNDP resources handled by the agencies: both for the 5 major agencies taken together and for the group of 11 smaller agencies, the value of UNDP-funded project activities was cut almost in half between 1991 and 1993. While a considerable part of the decline in the volume of activities can be attributed to the overall reduction in UNDP resources, the increase over the same period of the role of national

execution and in the reliance on OPS were also contributing factors. The team was able to confirm, in the course of visits to individual countries, that the participation of agencies in project implementation was indeed on the wane.

35. Development support to member countries under the general heading of technical cooperation is well within the mandates of the specialized agencies, large and small; in many cases, it is an explicitly mandated activity. Such support is financed from a number of sources, including budget lines within the regular budget, multi-bi funding, special trust funds, resources made available by Governments and the like. UNDP-financed technical cooperation is an add-on - an important addition in some countries and for some agencies, more marginal in others. Thus, the impact of UNDP-funded project activity on the volume and character of an agency's technical support - and indeed from any changes in the specific arrangements for cost coverage - is conditioned by the relative importance of this activity in the overall programme of the agency.

36. It is perhaps unfortunate that the new support cost arrangements came into being just at a time when a major reduction in UNDP core resources resulted in serious staff and capacity cutbacks in many of the agencies of the United Nations system that implement UNDP projects. These cutbacks, and the attendant organizational and human disruption, have inevitably caused many agency staff members to perceive the new arrangements as one further setback in agency involvement in UNDP-funded technical cooperation and in the tripartite relationship itself.

37. The causes and consequences of the decline in UNDP overall resources are outside the mandate of the team. Yet the basic question remains as to the manner in which the tripartite relationship may be expected to evolve. It is obvious that the progressive use of national execution must result in a reciprocal reduction in agency execution; and that, as national implementation capacity develops, there shall be a corresponding reduction in the level of agency implementation. This is as was intended. Moreover, the entry on the scene of OPS as a major actor has measurably reduced the role of the specialized agencies, large and small. While the share of several of the major specialized agencies in the UNDP core expenditure was cut by nearly one half between 1987 and 1993, that of OPS nearly doubled. Increasing the role of OPS was not specifically intended.

38. One objective of the framers of the new support cost arrangements was to assist in sharpening the technical edge of the agencies and in their becoming recognized centres of excellence in their respective areas of expertise by reducing their project administration and operational role, increasingly involving them in upstream policy dialogue and programme development, and increasing their role in project monitoring and evaluation.

39. There has already been a sharp decline in the operational activities of the agencies related to UNDP-financed programmes and projects. Many agencies have had to retrench, often in a painful manner, resulting in considerable loss in financial and human resources. Thus, over the past two years, FAO has lost, the team was told, 300 of the 800 posts it was financing from overhead funds; DDSMS has had to cut posts funded by UNDP support cost from 174 to 114; UNIDO has had

to retrench 128 posts in this category. Some of the smaller agencies have lost 50 per cent of their staff.

40. Most of the agencies have introduced reforms and restructuring of an autonomous character, mainly in response to developments on the international scene but in part also to cope with the situation created by the major shifts in the policies governing UNDP technical cooperation. Given their different institutional structures and historical backgrounds, their recent restructurings have followed different paths. In so doing, they have sought to reduce administrative and operational costs, emphasize quality over quantity of staff, and concentrate and move staff to the field so that the expertise is more readily available from the country office itself or from a nearby regional or subregional office. Thus, ILO has decided to locate expert technical staff, including multi-disciplinary teams, in its area offices. FAO has decided to decentralize its technical competence through the creation of new subregional offices and through the provision of additional technical expertise to its existing regional offices; it is also going to place much greater stress on the use of local personnel and on technical cooperation among developing countries (TCDC) and economic cooperation among developing countries (ECDC). UNIDO has also strengthened its field orientation by increasing its expert field personnel.

41. The only exception among the five major agencies to this general trend of restructuring is DDSMS, which is a part of the United Nations and hence cannot on its own proceed to decentralization at the country, subregional or regional levels. The scope for mobilizing extrabudgetary resources is also very limited. Moreover, DDSMS funding from the United Nations regular programme, which is at a low level, has been more or less stagnant for the last few decades. This in part explains why it has suffered most from the recent changes in UNDP policies and funding arrangements.

42. The strengthening of agency involvement in upstream activities and in monitoring and evaluation of UNDP projects still has far to go. For the tripartite relationship to remain strong, there is clearly a need for full and active agency participation in the preparation of the country programme document, of its mid-term review, and of the country strategy note; and continued agency partnership in the formulation of sectoral programmes and policies; and in programme and project monitoring and evaluation. Such agency involvement should help Governments to obtain the fullest possible benefit from agency expertise, it being incumbent upon the agencies at all times to maintain and enhance the quality and relevance of that expertise. The resident coordinator plays a critical role in the process of agency involvement, as representative of the system as a whole; indeed, one of the performance criteria for the resident coordinators should be their ability to involve actively the agencies of the United Nations system in the development process, both those with country representation and those without.

43. The specialized agencies constitute important pillars of the United Nations system. In spite of their shortcomings, they have served their member Governments for decades and have a series of remarkable achievements to their credit. If they are allowed to stagnate or weaken, it could be the end of multilateral development cooperation as known today. Hence, every effort should

be made to strengthen them and create the conditions for them to play their rightful role. The following suggestions are offered for consideration:

(a) Barring exceptional cases, the government executing agency should not be the general coordinating aid agency but should rather be the specialized or functional ministry or agency, which knows better what can be expected from the specialized agencies;

(b) Similarly, for TSS-1 and TSS-2 projects, the specialized agencies should be placed in a position to deal directly with the concerned functional ministries or agencies;

(c) For any technical input not available locally, the executing and/or implementing government agency should first explore what can be provided from the United Nations specialized agencies, rather than going directly to the open market. Here, costs may be higher or more difficult to assess, technical cooperation may have strings attached, and services can be delivered on a one-time basis without the assumption of any obligation for future services;

(d) Similarly, UNDP should first turn to the specialized agencies of the United Nations itself before turning to outside agencies, including the international financial institutions, and even before turning to OPS.

44. The future of the tripartite relationship will ultimately be conditioned by the manner in which UNDP itself adapts to meet its changing responsibilities, in particular the determination with which - in principle and in practice - it seeks to strengthen and support the effective role of the United Nations agencies. The changing relationship of both UNDP and the agencies with increasingly capable and self-sufficient Governments; the increased emphasis on a programme rather than project orientation of UNDP support; the attention given to the six areas of focus; the increasing relevance of and need for multidisciplinary and multisectoral analysis and action; the need - as the team sees it - for greater attention to multi-country opportunities; all this and more will call for expertise and support from the United Nations system in a different mode and with a different composition, in some measure drawing on different specialities and experiences. In meeting this challenge, UNDP would seem to have a special responsibility, wherever possible, to support the agencies, singly and as a system, in their process of renewal as centres of excellence, relevant to development, now and in the future.

45. The need for change in the substance and manner of United Nations technical cooperation is real, but the remedy can be found - and in the team's view should be found - largely in appropriate changes in the specialized agencies. UNDP also needs to change but care must be taken to avoid the dangers of duplication of technical expertise and capacities. At the field level, for instance, these changing needs can be seen as a challenge and an opportunity to mobilize and develop the expertise from the United Nations system itself and to stimulate a redirection of what the specialized agencies can and do contribute in their respective areas of responsibility.

46. These reflections may be felt to have taken us too far beyond our mandate but seeing the support cost successor arrangements in their context,

particularly in relation to the integrity and cohesion of the United Nations system as a whole, these are matters of fundamental importance for the future of United Nations technical cooperation.

V. TECHNICAL SUPPORT SERVICES AT THE PROGRAMME LEVEL: TSS-1

47. TSS-1 is a new facility, to which so far only the five major agencies have access. It is intended to sharpen the technical focus of the agencies and enhance their technical contributions to developing countries in the upstream stages of programme and project cycles. This includes the provision of sectoral and policy advice to Governments, the formulation of sectoral and cross-sectoral strategies and programmes, country programming and other technical cooperation assessment and formulation exercises, including thematic evaluations, aid coordination consultations for round-table meetings and national technical cooperation assessment and programmes (NATCAPs), etc. TSS-1 support was also intended to complement similar activities carried out under the regular programmes of participating agencies, to serve as a catalyst for their achieving sharper and more effective country focus, and to provide the foundation for integrated and coherent policy-level recommendations from the United Nations system.

48. The agencies have very much welcomed this facility and geared themselves up to take full advantage of it. They see it not only as a source of additional resources but also as a means to facilitate their involvement in downstream activities. They also view it as a means of facilitating their working more closely with policy-makers in the government and as a good image-building and high visibility exercise, the advantages of which go beyond their involvement with UNDP-financed programmes and projects in the country. They stated that they have always undertaken such upstream activities but that TSS-1 has enabled them to do so on a scale larger than ever before.

49. For the four-year period 1992-1995, a total of 579 separate TSS-1 activities were approved, not many of which have been completed. In the course of field visits, the team was able to review only a handful of such projects. Governments, agencies, UNDP headquarters, and UNDP field offices were unanimous in stating that there was as yet insufficient basis for a judgement on the value of the facility. Clearly, more time needs to pass before a serious evaluation can be made of this facility, but a few observations and tentative conclusions may be in order even at this time.

50. At first view, TSS-1 appears to be well-designed. However, in considering what TSS-1 was meant to accomplish, it is clear that resources do not measure up to its potential: provision of only $64 million for the entire fifth cycle is too limited, averaging $13 million per annum for 131 countries and five agencies. A general - and entirely valid - complaint made to the team during the field visits was that this excellent facility has been marred by too small resources earmarked for it and also by inappropriate procedures for its planning and approval. The scale on which planning was required to be done bore no relationship to what was ultimately approved. Drastic cuts were introduced in budgets of individual projects at the last moment without there being any change in any other component of the projects. Thus, there was not only a lot of

wasted effort but also highly unrealistic budgets with which the agencies had to work. It was also pointed out that similar studies by the World Bank and by the International Monetary Fund are budgeted at $1 million or more.

51. First indications are that, at least in a few cases, it has indeed facilitated upstream dialogue between government and specialized agencies on policy and programme issues and has led to a clearer understanding of those issues by all concerned. Multisectoral aspects of TSS-1 programming featured in certain of the countries visited (e.g., Indonesia). Also, it appears from a summary of TSS-1 approvals to date that multidisciplinary missions are being used to an increasing extent, and have been a notable feature of TSS-1 programming in general.

52. TSS-1 activities for the first biennium (1992-1993) had to be rather hurriedly prepared and the participation of Governments and UNDP field offices was therefore limited. The preparation of the programme for the second biennium (1994-1995) showed much improvement but there were still too few cases where initiatives came from the Government. Nevertheless, the future of TSS-1 seems promising to the team. It is a window of opportunity for the agencies. They seem to be poised to accept it on a large scale but a major constraint will be that of resources. The forthcoming country programming exercises for the sixth cycle would certainly give it further momentum. In the long run, however, what will count for the recipient countries are concrete results not the studies themselves.

53. However, TSS-1 is not being used consistently for upstream activities related to policy and sectoral advice but is often geared to activities that are more oriented to project formulation. The team discovered during its country visits that TSS-1 activities have in some cases generated sectoral project pipelines, a worthwhile outcome by itself but incidental, rather than central, to the overall objectives of the facility. In India, a number of TSS-1 projects were in the nature of pre-project activities.

54. The question of whether and how far the introduction of the TSS-1 facility has succeeded in sharpening the technical focus of the agencies can only be answered tentatively. At least two of the agencies visited by the team said that it had brought about a measure of interdepartmental coordination, which was needed to respond to the multidisciplinary character of the work. As to TSS-1 activities being instrumental in also bringing forth resources for upstream work supported by agency regular budgets, the team noted the comment from one of the agencies that "it has generally been difficult to link TSS-1 with regular programme activities due to lack of forward planning, lack of relevance and lack of consultations".

55. The team also found cases where TSS-1 activities had provided the basis and framework for the launching of major programmes, well beyond what could be assisted and funded from UNDP or even wider United Nations sources. We also noted that in some TSS-1 projects national experts were drawn in to carry out the analysis. This, of course, the team commends; yet, it appears to have been the exception rather than the rule to date.

56. With respect to follow-up action taken on TSS-1 activities, the team's study of completed projects has been so few that it is again difficult to arrive at definitive conclusions. However, in most of the countries visited, the team found that some of the planned TSS-1 activities were well related to broader government policy pronouncement in the sectors concerned, and with directives for follow-up action. Thus, the TSS-1 activities appeared to reflect duly the objectives of government policy. Therefore, follow-up action would most likely be taken.

57. Given the limited experience thus far, the team is unable to reach a definitive judgement on the results of TSS-1. There are clear indications, however, that TSS-1 is indeed a useful tool. Its progress needs to be further monitored by the tripartite partners - with a view, the team suggests, to its future expansion if the early positive indications are confirmed by further experience.

58. In this connection, the team has noted the Administrator's proposal that during the current cycle, he should be authorized to shift resources from the TSS-2 budget line to the TSS-1 budget line, as with the programming of the bulk of the available resources for the cycle and the much reduced size of the programme there is likely to be savings in TSS-2, and with the onset of the new country programming cycle, there is likely to be an increase in demand for TSS-1. The team regards this suggestion as a good practical measure to cope with the expanding demand for TSS-1.

59. The involvement of government in the selection and formulation of TSS-1 activities to be funded, which was much advanced in the second biennium, can and should be further strengthened. Also, it seems to the team, TSS-1 type activities can be of critical importance in helping to define the total requirements for technical cooperation in a particular sector, without necessarily focusing on the funding sources that would ultimately support subsequent activities in general, or the role of UNDP or specialized agencies in particular. Opportunities of this nature may present themselves more fully as TSS-1 activities become more closely linked with the country programming process.

VI. TECHNICAL SUPPORT SERVICES AT THE PROJECT LEVEL: TSS-2

60. TSS-2 is a project level facility, so far available only to the five major agencies, for obtaining technical services from the United Nations agencies for backstopping, technical advice and guidance to project staff, and agency participation in project reviews, monitoring and evaluation, and generally for technical advice and support throughout the project cycle. It can also be used for project formulation and appraisal. These services can be provided regardless of implementation modalities, i.e., the inclusion or not of the agency concerned as a partner in implementation.

61. The TSS-2 facility could be an important instrument for reinforcing the Administrator's accountability in respect of the substantive and technical aspects of project development, implementation and follow-up. This was an explicit objective of the Governing Council when designing the new arrangements

for assistance at the project level, as noted in decision 90/26, "(ensuring) adequate oversight by the Administrator of all projects through, inter alia, technical appraisal, monitoring and evaluation functions to which agencies would normally be considered as technical partners of the Administrator".

62. The TSS-2 facility has had a slow start. It has taken some time for the parties to understand fully - or to become familiar with - the objectives and modalities of the facility. The team was told by some agencies at headquarters and in the field, that there was some hesitation on the part of the agencies to engage in TSS-2 activities in projects where they themselves were not the executing or even a major implementing agency. Moreover, there has been some feeling that the cost coverage for TSS-2 activity ($9,500 per work-month) was insufficient, even taking into account the accepted principle of cost-sharing. These concerns now appear to have become less pressing and the use of the facility is gathering momentum.

63. While TSS-1 funds - as the system is now designed - are centrally managed and allocated from headquarters, TSS-2 funds have been provisionally allocated to UNDP field offices in proportion to the respective IPF. TSS-2 funds, therefore, are a source of funding through the field offices within a given planning figure.

64. In the first two years of its existence, through June 1994, project activities under the TSS-2 facility have been approved for a total expenditure of $15 million but so far only few have been reported as completed; in the seven countries visited, only a very limited number had been completed. The team has no firm basis in experience therefore, for forming a judgement on the actual and potential value of this facility. Even so, it may be worthwhile to present some reflections, however tentative, on the potentials of TSS-2 and its further development.

65. Where data was available, the combined list of projects/inputs approved so far for TSS-2 financing shows a fairly even distribution between the various phases of UNDP-financed project activity. However, such data seems to indicate that backstopping is financed more abundantly than evaluation.

66. The team envisages that in coming years relatively more emphasis should be given to the use of the TSS-2 facility to draw in the specialized expertise of the agencies more fully in project appraisal, monitoring and evaluation, both for the value it will have for effective formulation and efficient implementation of the UNDP-financed project themselves, and also to provide the Administrator with the technical information and assessment needed to reinforce his accountability. It follows, as was apparently also the intent of the legislation, that such use of the TSS-2 facility should be selectively encouraged for UNDP-financed projects in which the agencies are themselves directly involved, but also for those projects subject to implementation by other agencies including, of course, nationally executed projects.

67. We wish to stress, however, that it would not be appropriate to use agency technical support under the TSS-2 facility for each and every project. Individual project appraisal, monitoring and especially evaluation through TSS-2 should be undertaken on a selective basis. As is stated in the guidelines

(DP/1991/25): "specialized technical services of monitoring and evaluation shall normally apply to all large-scale projects and projects of special complexity". At the country level, the use of TSS-2 should be planned ahead as part of the review of progress of the entire country programme and its major areas of programme concentration.

68. The contribution that the smaller agencies can also make in supplying specialized technical services to Governments in support of UNDP-financed project activity is discussed in section VIII.

VII. ADMINISTRATIVE AND OPERATIONAL SUPPORT (AOS)

69. The purpose of the AOS provision, included as a sub-line in each IPF, is to reimburse implementing agencies in accordance with a set schedule for part of their administrative costs, such as those relating to recruitment, payrolling and administration of staff and consultants, to procurement, and to the organization of fellowships, workshops and study tours. This "reimbursement window" is open not only to the five large specialized agencies but also to the smaller United Nations agencies and any other body charged with the responsibility of implementing UNDP-financed projects, with one exception. As pointed out in an earlier section, that exception arises from the fact that the Governments have agreed that they will themselves cover all such costs of UNDP-financed projects from their own resources for those projects and parts of projects where they are themselves (or through government agencies) in charge of implementation.

70. Along with UNDP itself, the five large agencies have invested quite heavily in time and effort to develop a functioning system for budgeting, accounting, billing and reimbursement on the new basis of seven different rates. By now, the team was told, the system appears to function well and problems arising are readily handled. With the necessary procedures and data programming in place, the actual operation and maintenance of the system is not expected to present major problems, delays or costs. The team was informed that an important spin-off benefit to the agencies concerned is seen to be that they can apply - and in some instances already have applied - the same cost measurement system also to their non-UNDP related activities and procedures, using the system as a tool for better management, financial control and organizational analysis.

71. Under the new arrangements, AOS is expected to amount to $39.5 million for the entire fifth cycle. However, as of 31 December 1993, AOS disbursements under the new arrangements amounted only to $3.1 million. Neither at headquarters nor at the country office level did the team find sufficient basis to conclude whether or not the introduction of such an admittedly complex system was really worthwhile. Experience with AOS "savings" was even more limited, and here, too, it is too early to draw conclusions. In any event, preliminary calculations suggest that the average agency reimbursement ranges from about 9 to 10 per cent. Given that the level of agency implementation is likely to decrease over time, the advantage of simplifying the system may perhaps become more apparent in a few years' time.

VIII. THE SMALLER AGENCIES

72. Governing Council decisions 90/26 and 91/32 restricted the use of the new arrangements to the five larger agencies while inviting the smaller agencies to consider the possibility of participating in the new regime in the light of experience gained. In the meantime, the smaller agencies remain subject to the old arrangements; that is, a 13 per cent reimbursement of overhead on the basis of actual delivery; "flexibility" payments to compensate for diseconomies of scale in the delivery of small-sized programmes; and "sectoral support", a facility amounting to $11 million for the entire fifth cycle, the purpose of which is to finance sectoral studies by the smaller agencies.

73. Two issues arise in the context of support costs for the smaller agencies. The first is whether there are advantages (in terms of effectiveness of delivery, simplicity and transparency) for the smaller agencies to change to the new arrangements. The second is whether sectoral support for the smaller agencies should continue as currently designed or whether there should be changes in the existing pattern.

74. With respect to whether a change to the new arrangements is merited, account should be taken of the recent sharp decrease in the share of the smaller agencies in overall UNDP-funded project implementation. That share has decreased from 14.2 per cent in the fourth cycle to an estimated 8.2 per cent in the fifth, and from 11.8 per cent in 1991 to an estimated 8.0 per cent in 1994. In dollar terms, delivery by the smaller agencies in 1994 is expected to amount to $50 million, attracting $8 million in support costs. Support cost resources to the smaller agencies declined from $92 million in the fourth cycle to an estimated $57 million in the fifth cycle. Amounts of that order can hardly justify the investment in human and other resources required to change to a new system.

75. An apparent advantage of a change-over would be uniformity. However, there is uniformity now among the smaller agencies, and the difference in terms of size of delivery between the larger and the smaller agencies is such that it would be difficult to speak of uniformity among them. Also, the flexibility provisions presumably would need to continue, thus maintaining a non-uniform feature.

76. As regards small agency use of technical support facilities, it should be noted that while the smaller agencies do not have access to TSS-1, they can use the sectoral support window to identify sectoral technical cooperation requirements; provide policy advice to Governments; formulate sectoral and intersectoral programmes and projects; and contribute to substantive sectoral coordination at the field level. 4/ With only one exception - the reference to project formulation - these purposes are similar to those pursued under the TSS-1 facility for the larger agencies. Sectoral support could thus continue to be used by Governments, UNDP field offices and the smaller agencies in essentially the same manner that TSS-1 is used in the case of the larger agencies.

77. However, for sectoral support to be used in this manner, there should be greater awareness in UNDP field offices of the existence and purpose of this

facility. The team found, in the course of its field visits, evidence that this awareness was often lacking. This is an important point, as it is linked with the need to maintain the tripartite relationship - a need which applies with equal validity to both small and large agencies.

78. The overall decline in UNDP resources has been the major cause of the precipitous fall in the share in the UNDP programme of the smaller agencies as well as the larger agencies. The smaller agencies may have had additional difficulties because they are usually not so well directly represented in the field. Also, with a stronger focus of UNDP-funded programmes on socio-economic themes, the technical contribution of the smaller agencies appear less relevant to the attainment of the programme objectives.

79. Furthermore, there has been a trend of decline in the level of UNDP intercountry programmes in which the smaller agencies enjoy a unique advantage. Subregional, regional and interregional approaches to technical cooperation are better suited in such highly technical areas as river waters, weather watch, telecommunications, aviation, etc., and in the area of trade and tariffs. It appears that the comparative advantage of the United Nations system in assisting in forging links of regional and subregional cooperation through intercountry programmes is being exploited in less than its full measure. The share of intercountry programmes has gone down from 19 per cent of the total UNDP programme in the fourth cycle to 13 per cent (estimated) in the fifth cycle. The African regional programme has dropped even more sharply.

80. The team does not itself have a full picture of why this has happened but suggests that UNDP undertake a special study of the matter with a view to strengthening regional and intercountry activities. If such strengthening comes about, it will also - incidentally - bring the expertise of the smaller agencies more fully into play.

81. The resource level for sectoral support might well require review. TSS-1 for the fifth cycle for the five large agencies is estimated at $64 million, or 15.7 per cent of their estimated delivery of $407 million under new arrangements. In comparison, sectoral support for the smaller agencies, at $11 million, represents only 4.2 per cent of their estimated delivery of $259 million. A prima facie case would therefore seem to exist to increase significantly the provision for sectoral support for the smaller agencies.

82. Thus, there is a case for a facility of the TSS-2 kind also being made available to the smaller agencies in cases where, for instance, it would be considered useful that an agency conduct an evaluation of a project or set of projects in its field of competence. A limited use of funds for such purposes, the team suggests, could assist the Administrator in exercising his accountability, at relatively minor additional cost. It is a matter of finding the more practical arrangement and, of course, a matter of funds. In this connection, we note the Administrator's proposal for the creation of a new facility specifically for the small agencies (with an allocation of $5 million for the remainder of the current cycle), along with reduction in the reimbursement for project execution from 13 per cent to 10 per cent.

IX. CONCLUSIONS AND RECOMMENDATIONS

A. General

83. The following general conclusions have been reached:

(a) The actual experience under the new agency support cost arrangement has until now been much more limited than had been expected when the Governing Council put these arrangements in place in 1992;

(b) Progress towards many of the objectives of the new arrangements depends, to a large degree, on factors that have little to do with support cost mechanisms, in particular the capability of the organizations within the United Nations system to accept change as an inevitable part of the process towards greater cohesiveness and effectiveness in the system of international cooperation;

(c) In any event, moneys involved in the support cost arrangements are too small to incite fundamental changes;

(d) The financial underpinning of the system provided through UNDP-funded activities has recently been weakened by a massive shortfall in the expected resource flow to UNDP.

B. National execution

84. The team offers the following conclusions and recommendations:

Conclusions

(a) Progress in national execution has been rapid recently. In practice, national execution has become a primary mode of operation;

(b) National implementation is generally a favoured option, but here the choice is often more difficult than for execution;

(c) The progress towards Governments taking up projects for national execution has been considerably facilitated by the introduction by UNDP of a clear distinction between project and programme execution and implementation;

(d) There has been some progress in the implementation of projects by national entities other than the Government. However, there is little evidence of Governments contemplating handing over execution at this stage to such entities.

Recommendations

(a) The existing programme support units in the resident representative's offices should be regarded as purely temporary and should be located as soon as practicable in the government coordinating agency;

(b) The political will that the Governments of recipient countries have exercised at the international level for moving rapidly towards greater national execution should be matched by the exercise of similar political will at the national level by effectively taking over UNDP projects for execution, and whenever possible, implementation;

(c) Programme support units financed by UNDP should be dispensed with as soon as possible and the execution and implementation of UNDP projects should become an integral part of the process and procedure for the execution of all other national programmes and projects.

C. The tripartite relationship

85. The team offers the following conclusions and recommendations:

Conclusions

(a) There has been a marked decline in the share of UNDP resources handled by the agencies - both large and small. This can be attributed to an increase over the same period of the role of national execution and in the increasing reliance of UNDP on OPS. As national execution further expands, this trend will be further accelerated. This is how it is intended to be. However, increasing the role of OPS was not specifically intended;

(b) Mainly as a result of the recent sharp decline in their shares of UNDP-financed operational activities, many agencies have had to retrench, often in a painful manner;

(c) Mainly in response to developments of an autonomous character on the international scene but in part also to cope with the situation created by the major shifts in the policies governing UNDP technical cooperation, most of the agencies have introduced reforms and have undertaken restructuring;

(d) The principal thrust of this restructuring is to concentrate and move staff to the field so that the expertise is more readily available from the country office itself or from a nearby regional or subregional office.

Recommendations

(a) For the tripartite relationship to remain strong there is clearly a need for fuller and more active agency participation in the preparation of the country programme document, in its mid-term review, in the formulation of sectoral programmes and policies, and in programme and project monitoring and evaluation;

(b) One of the performance criteria for the resident coordinators should be their ability to involve actively the agencies of the United Nations system in the process of UNDP technical cooperation in the countries concerned;

(c) Barring exceptional cases, the government executing agency should not be the aid coordinating agency but should rather be the specialized or

functional ministry or agency, which knows better what can be expected from the specialized agencies;

(d) For TSS-1 and TSS-2 projects also, the specialized agencies should be placed in a position to deal directly with the concerned functional ministries or agencies;

(e) For any technical input not available locally, the executing agency and/or implementing government agency should first explore what can be provided from the United Nations specialized agencies rather than go directly to the open market where costs may be higher or more difficult to assess and where technical assistance may have strings attached to it, as well as being in the nature of one-time delivery, without the assumption of any obligation for future services;

(f) UNDP should first turn to the specialized agencies before turning to outside agencies, including the international financial institutions, and even before turning to OPS;

(g) The more appropriate way to meet the current challenges of United Nations technical cooperation is by strengthening the specialized agencies. UNDP also needs to change but care should be taken to avoid the dangers of duplication of technical expertise and capacities.

D. TSS-1

86. The team offers the following conclusions and recommendations:

Conclusions

(a) The agencies have very much welcomed the TSS-1 facility and geared themselves to take full advantage of this window of opportunity;

(b) This otherwise excellent facility has been marred by too meagre resources earmarked for it and by inappropriate procedures for its planning and approval;

(c) First indications are that at least in a few cases, TSS-1 has facilitated upstream dialogue between the Governments and specialized agencies on policy and programme issues and has led to a greater understanding of these issues by all concerned;

(d) It also appears that multidisciplinary missions are being used to an increasing extent and have been a notable feature of TSS-1 programming in general;

(e) TSS-1 programmes during the first biennium had to be somewhat hurriedly prepared, with only limited government participation. Although the preparation of the programme in the second biennium showed much improvement, there were still too few cases where initiatives came from the Government;

(f) Some TSS-1 activities generated project pipelines. In some other cases, they were in the nature of pre-project activities. These are worthwhile outcomes by themselves but not central to the objectives of the facility;

(g) TSS-1 activities brought about a measure of interdepartmental coordination needed to respond to the multidisciplinary character of the work;

(h) It has generally been difficult to link TSS-1 activities with regular programme activities because of a lack of forward planning, lack of relevance and lack of consultations;

(i) There were also cases where TSS-1 activities provided the basis and framework for the launching of major programmes well beyond what could be assisted and funded from UNDP or even wider United Nations sources;

(j) In some TSS-1 projects, national experts were called upon to carry out the analysis. However, this seems to have been the exception rather than the rule to date;

(k) It is premature to arrive at conclusions on the follow-up actions taken on TSS-1 projects. However, some of the planned TSS-1 activities were well related to broader government policy pronouncements in the sectors concerned, with directives for follow-up action.

Recommendations

(a) TSS-1 is a useful tool. The early indication of its functioning are generally positive. It should be further expanded;

(b) The involvement of Governments in the selection and formulation of TSS-1 activities can and should be further strengthened;

(c) The Administrator's proposal to shift resources from the TSS-2 budget line to the TSS-1 budget line during the current cycle is a good practical measure to cope with the expanding demand for TSS-1 during the cycle;

(d) TSS-1 activities should be used to help define the total requirement of technical cooperation in a particular sector without necessarily focusing on the funding sources that would ultimately support subsequent activities.

E. TSS-2

87. The team offers the following conclusions and recommendation:

Conclusions

(a) The TSS-2 facility has had a slow start but the use of the facility is gathering momentum;

(b) In TSS-2 activities, backstopping is financed more abundantly than evaluation.

Recommendation

In coming years, relatively more emphasis should be given on the use of TSS-2 facility to draw on the specialized expertise of the agencies more fully in project appraisal, monitoring and evaluation.

F. AOS

88. The team offers the following conclusions and recommendation:

Conclusions

(a) The five large agencies have invested quite heavily in time and effort to develop a functioning system of budgeting, accounting, billing and reimbursement on the new basis of seven different rates. By now, the system appears to function well and problems arising are readily handled;

(b) An important spin-off to the agencies concerned is seen to be that they can also apply the same cost measurement system to their non-UNDP related activities, using the system as a tool for better management and financial control.

Recommendation

The system should be reviewed after further experience is gained to see if it can be simplified.

G. The smaller agencies

89. The team offers the following conclusions and recommendations:

Conclusions

(a) There was a lack of awareness in the field offices of the existence of a sectoral support facility for the smaller agencies;

(b) With the recent trend of decline in the level of UNDP intercountry programmes, it appears that the comparative advantage of the United Nations system in assisting in forging links of regional and subregional cooperation through intercountry programmes is being exploited in less than its full measure.

Recommendations

(a) The present drastically reduced amount of programme delivery by the smaller agencies and the consequent decline in the support costs payments to them would hardly justify the investment in human and other resources required for them to change to the new agency support cost system;

(b) There should be greater awareness in the UNDP field offices of the existence and purpose of the UNDP sectoral support facility for the smaller agencies;

(c) The current level of sectoral support facility for the smaller agencies represents a much smaller percentage of their estimated delivery than that relating to the five large agencies. There is therefore a *prima facie* case to increase significantly the sectoral support for the smaller agencies;

(d) UNDP should undertake a special study of the causes and consequences of the recent decline in UNDP intercountry programmes. The objective of this study should be to recommend measures for strengthening the intercountry programmes, which among others, will bring the expertise of the smaller agencies more fully into play;

(e) There is a case for a facility of TSS-2 kind being available also for the smaller agencies. In this connection, the Administrator's proposal for the creation of such a facility with an allocation of $5 million, along with reduction in the reimbursement for project execution from 13 per cent to 10 per cent, is noted.

Notes

1/ These are the Food and Agriculture Organization of the United Nations (FAO), the International Labour Organization (ILO), the Department of Development Support and Management Services (DDSMS), the United Nations Educational, Scientific and Cultural Organization (UNESCO), and the United Nations Industrial Development Organization (UNIDO), referred to as the five large agencies.

2/ The 11 agencies, here referred to as the smaller agencies, are the International Atomic Energy Agency (IAEA), the International Civil Aviation Organization (ICAO), the International Maritime Organization (IMO), the International Telecommunication Union (ITU), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), the United Nations Centre for Human Settlements (Habitat), the Universal Postal Union (UPU), the World Intellectual Property Organization (WIPO), the World Meteorological Organization (WMO) and the World Tourism Organization (WTO).

3/ A description of the new support cost arrangements is contained in paragraphs 7, 8, 10, 11 and 14, and in the annex of decision 90/26.

4/ See document DP/1991/27.

Annex

TERMS OF REFERENCE FOR THE EVALUATION OF NEW SUPPORT COST ARRANGEMENTS

Background

1. At its thirty-eighth session (1991), the Governing Council adopted comprehensive legislation on successor arrangements, which has significant, long-term implications for the operational activities of the United Nations system. This legislation represented the culmination of a long process of review of support cost arrangements that included a study by a Council-appointed expert group and detailed consultations with several Governments. On the basis of these reviews and consultations, the Council adopted a series of decisions covering successor arrangements for agency support costs, national execution, and fifth cycle planning. a/ These decisions, which arose from General Assembly resolution 44/211 on operational activities, provided UNDP with a legislative and policy framework for its future activities.

2. The new arrangements for agency support costs approved by the Governing Council formed a part of a broader policy package, which included new initiatives relating to national execution and the programme approach, and a renewed emphasis on human development and capacity-building in areas of special focus identified by the Council in its decision 90/34. These various components of the policy framework were viewed as mutually supportive and synergistic. Taken together, these policy initiatives were seen to offer considerable opportunity to achieve increased effectiveness and relevance in UNDP-financed programmes and projects.

3. The new arrangements replaced a system that had been in existence, in its essential elements, for over two decades, and that was last revised through Governing Council decisions 80/44 and 81/40. Under the old system, executing agencies were, in general, reimbursed their costs of supporting projects at 13 per cent of project expenditures. The reimbursement formula was considered to be one aspect of a tripartite partnership among Governments, UNDP and the specialized agencies through which UNDP-financed technical cooperation activities were carried out in developing countries.

4. In establishing the new support cost arrangements, and other elements of the reform package mentioned above, the Governing Council sought to achieve a set of interrelated objectives that include the following:

(a) Continue to reflect the principles of tripartite partnership and the sharing of costs of support services;

(b) Strengthen capacity for technical support while reducing the administrative and operational involvement in project implementation;

(c) Ensure cost-efficiency, quality, transparency, effectiveness, openness and competitiveness;

(d) Facilitate management by Governments and provide incentives for national execution, strengthening the accountability of all parties concerned;

(e) Permit increased choice and use of implementing agents in project implementation;

(f) Provide coherence and coordination in United Nations system operational activities.

5. The new system applies only to the five large agencies which traditionally executed about half of UNDP's projects. b/ The new system took effect on 1 January 1992, becoming fully operational only as of 1 July 1992. Other smaller agencies continue under the "old regime" but have been encouraged to join in the new system as soon as possible.

6. The new arrangements established a policy framework for the execution and implementation of UNDP-financed programmes and projects, and provided for the use of several financial facilities including, inter alia, technical support services at the programme and project levels (TSS-1 and TSS-2) and an IPF sub-line for financing administrative and operational support. The new arrangements embody the following features:

(a) Separation of technical and administrative/operational support services, with different reimbursement rates for each type of service;

(b) Redefinition of ownership, execution (management of projects) and their separation from implementation (procurement of inputs and their conversion to project outputs);

(c) Unbundling implementation services so that a varied range of implementing agents, including NGOs, public institutions, national entities, private business and United Nations agencies can provide an optimal package.

7. A detailed description of the operation of the successor arrangements for agency support costs, and the guidelines to determine execution and implementation arrangements under the new system, are contained in a document jointly prepared by UNDP and the agencies, originally issued in February 1992 (and revised in October 1992).

Legislative basis for the evaluation

8. In setting out the framework for the new system in decision 90/26, the Governing Council decided that "as far as possible, the arrangements should have a ten-year validity, but there should be a review of the functioning of the new system in time for the preparation of the sixth cycle". (The framework for the cycle is expected to be established in mid-1995.) In decision 91/32, the Council subsequently decided that "for the purpose of determining allocations for technical support services for the sixth programming cycle, an external evaluation shall be carried out which will include an analysis of the need for and experience with TSS-1 and TSS-2 services, in the context of the review called for in decision 90/26". That same year, in its decision 91/34 on sectoral support, the Council indicated that the "sectoral support programme

will be reviewed as part of the evaluation of the new support costs arrangements and consultations with smaller technical agencies". In decision 92/22, the Council "agreed that an independent evaluation shall be carried out in 1994" and reaffirmed it in its decision 93/25.

Evaluation schedule and support modalities

9. The evaluation will be carried out during the period June-September 1994 and the results will be provided to the Executive Board for consideration during its October 1994 session. Background work, including desk reviews and analysis will be carried out in June-July 1994; discussions with agencies will be scheduled for July 1994; and visits to representative countries carried out in August 1994. The report will be written in September 1994 for discussion by the Executive Board in October 1994.

10. The evaluation team should consist of three persons and be led by a person of stature, familiar with multilateral technical cooperation, but not previously associated, as a delegate or an agency official, in the establishment of the new support cost regime. UNDP would provide support to the work of the team.

11. Close dialogue would be established between the team and the agencies, initiated by a general meeting with follow-up visits to each of the five agency headquarters. Additional consultations would be held with a representative group of the smaller agencies, to assess the impact of the new arrangements on them at present, and the implications of their falling under the new system in future. Agencies not visited can contribute data and their experiences via questionnaires.

12. Visits to a group of recipient countries should be made, taking into account a representative range of a number of factors: the number and value of projects falling under the new arrangements, experience with TSS-1, use of TSS-2, the proportion of national execution, and direct agency representation at the field level.

Scope of the evaluation

13. The governing bodies had set out wide-ranging objectives for the new arrangements that are closely interrelated to other major reforms introduced concurrently. The evaluation of the new arrangements should, therefore, be broad enough in scope to encompass the fundamental issues related to the new arrangements. In particular, the evaluation should review the extent to which the new arrangements:

(a) Constitute an incentive to national execution;

(b) Enable Governments to obtain enhanced and improved technical support from United Nations specialized agencies for their programmes and projects (especially for nationally executed activities);

(c) Strengthen the tripartite partnership and ensure improved coherence and coordination in the operational activities of the United Nations system;

(d) Strengthen the engagement of United Nations technical agencies in upstream analytical and programming activities;

(e) Provide for better linkages between operational activities and regular budget-financed activities of the technical agencies; and provide for continued sharing of costs of support services between UNDP and agencies;

(f) Provide for increased transparency of the relationship between services rendered and reimbursements made;

(g) Satisfy the simplicity criterion set by Member States;

(h) Support new initiatives such as the programme approach and the country strategy note.

14. The evaluation should also assess the staffing and structural changes achieved thus far to strengthen the capacities of the concerned agencies for technical support while keeping resources deployed for administrative and operational support to a minimum. In addition, the evaluation should review how effectively UNDP and the Governments are applying and using the new facilities.

15. In carrying out the evaluation, the evaluation team may wish to address two broad categories of issues: the implementation of the policy framework for execution and implementation and related matters; and the application and the implementation of the facilities of the new support cost arrangements. In doing so, the evaluation should take into account the performance indicators for each of these categories which were identified by UNDP in document DP/1993/22 and approved by the Governing Council. Based on these indicators and operational experience accumulated so far, a possible list of issues and processes to be analysed are provided in appendix I.

Smaller technical agencies

16. Although the new arrangements do not apply to the smaller technical agencies, the evaluation will address how they are presently being affected by the implementation of these arrangements and related reform measures, and the implications of their possibly falling under this system in the near future. In addition, as requested by the Governing Council in its decision 91/34, the effectiveness of the sectoral support programme would be evaluated as part of this evaluation exercise.

Notes

a/ Decisions 90/26 and 91/32 cover successor arrangements for agency support costs, decisions 90/21 and 91/27 cover national execution, and decision 90/34 covers fifth cycle planning; subsequent reviews by the Governing Council of the implementation of these decisions led to decisions 92/22 and 93/25 on national execution and agency support costs.

b/ FAO, ILO, UNESCO, UNIDO and (then) UN/DTCD.

Appendix I

POSSIBLE LIST OF ISSUES TO BE CONSIDERED BY THE EVALUATION TEAM

A. Execution and implementation arrangements

1. The effective application of the new framework for execution and implementation, including an analysis of the trends in national execution expressed in number and value of projects, as well as by sector, country and other descriptors;

2. Review of implementation modalities, including in particular the use of external agents such as NGOs and public and private institutions;

3. Review of the use of United Nations agencies as implementing agents in nationally executed projects; and

4. The contribution of the new support cost structure to facilitate the exercise of financial and substantive accountability by Governments, agencies and UNDP.

B. Implementation of the new regime facilities

TSS-1

1. The process for formulation of the work programmes; demand-driven nature of the exercise; extent of participation of Governments, agencies and UNDP;

2. Effectiveness of the implementation of the programme; quality of technical services provided by agencies; use of external consultants versus agency expertise;

3. Adequacy of total resource earmarking; additional resources provided for these purposes from agency regular budgets, IPF or Government; and

4. Uses to which TSS-1 outputs have been put; follow-up actions taken.

TSS-2

1. The process of approval of TSS-2 support for both agency and nationally executed projects, expressed in number and value of projects, as well as by sector, country and type of service (i.e., formulation, appraisal, monitoring, evaluation);

2. Effectiveness of TSS-2 support services; adequacy of technical backstopping services, particularly for nationally executed projects; use of external consultants versus agency expertise; and

3. Volume of technical support services funded from other UNDP sources such as the Project Development Facility (PDF), IPF and other SPR subprogrammes, and from sources provided by agencies.

AOS and IPF sub-line

1. A review of the application of the new AOS cluster arrangements, including an analysis of approvals of AOS by cluster and agency;

2. Review of the total cost to agencies of AOS by cluster and an analysis of agency subsidy to AOS support, if any; and

3. Review of the use of savings from IPF sub-line resources for capacity-building.

Appendix II

EVALUATION TEAM

Three distinguished persons have agreed to constitute the evaluation team:

(1) Mr. Muchkund Dubey, presently a professor in the Jawaharlal Nehru University in New Delhi, formerly Foreign Secretary, Government of India, Permanent Representative of India to the United Nations in Geneva, and Ambassador to several countries, including Bangladesh. Mr. Dubey has been involved in various intergovernmental negotiations on development matters, including the Consensus resolution of 1970.

(2) Mr. Just Faaland, Fellow, Chr. Michelsen Institute (Bergen, Norway); formerly Director-General of the International Food Policy Research Institute (Washington) and President of the Development Centre of the OECD (Paris), has carried out a large number of senior-level programming and evaluation assignments in least developed countries.

(3) Mr. Patricio Ruedas, former Under-Secretary-General, Administration and Management, United Nations, has occupied several high-level positions in the system.

The team brings to this exercise a wide range and depth of relevant experience covering academic, diplomatic, national government and international organizational settings. While the team embodies a wealth of experience, none of the individuals has been associated with the establishment of the new arrangements in any way, either during the legislative process or during their implementation.

The entire team expects to visit India, and then split to visit the other countries selected: Dominican Republic, Honduras, Indonesia, Malawi, Morocco, and Mozambique.